

Hibbett Sports Incorporation
NYSE:HIBB

Analyst: Lionel Krupka
Sector: Consumer Discretionary

BUY

Price Target: \$49

Key Statistics as of 11/10/2016

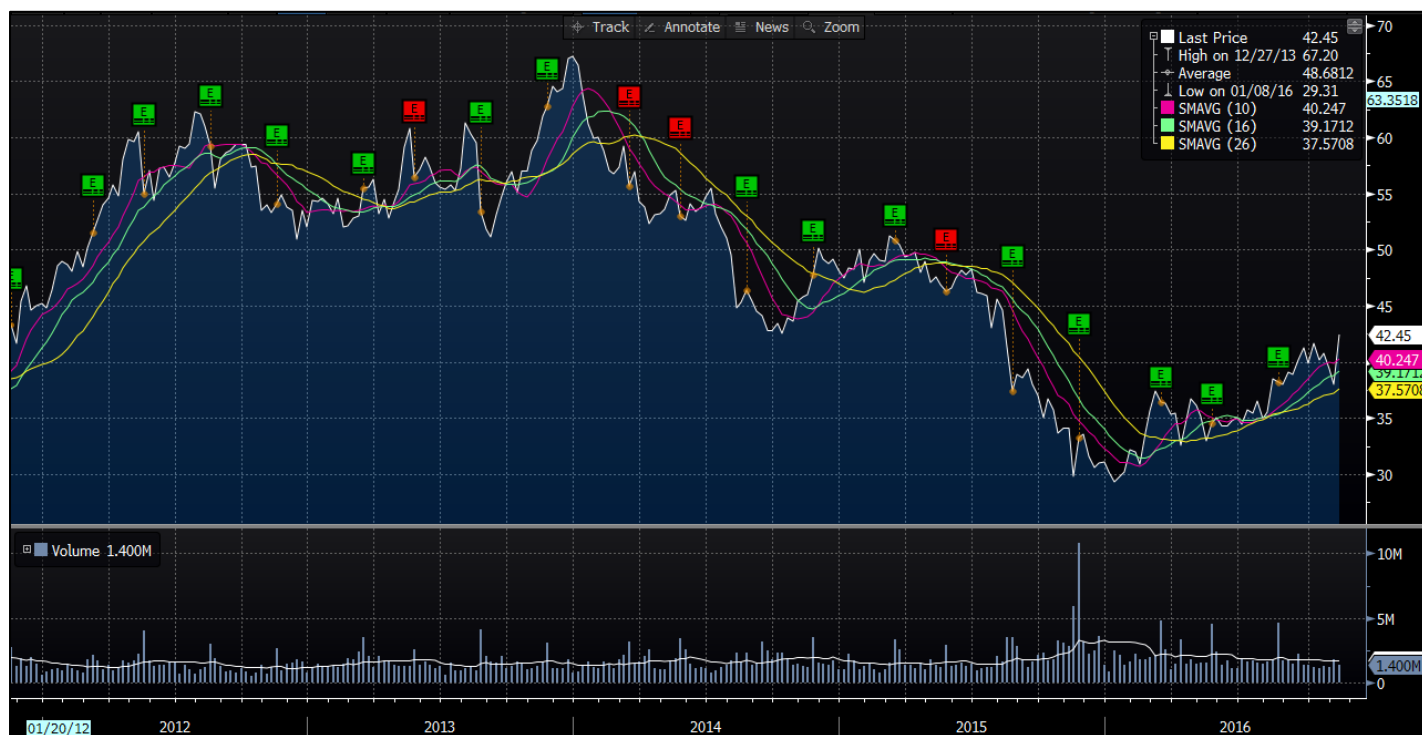
Market Price: \$42.35
Industry: Sporting Goods
Market Cap: \$961 M
52-Week Range: \$27.58 – \$43.45
Beta: 0.85

Catalysts:

- **Short-term (within 3 months):** volatility after earnings may create momentum to reach target price in a very short time
- **Mid-term (within 6 months):** Inactivity in the U.S has started to decrease in most age groups in 2016
- **Long-term (1 to years):** End of consolidation in the sector, New tax environment, Improvement in the overall economy

Company Description:

Hibbett Sports is a chain of sporting goods stores, founded in 1945. It counted 1,047 retail stores across the country in January 2016, composed of 1,027 Hibbett Sports and 20 Sports Additions stores, which are athletic shoe stores. The company is mainly present in the Midwest, Mid-Atlantic, Southwest and South, and its stores are usually 5,000 square foot large. Around 20% of the stores are located in shopping centers while the remaining 80% are in strip malls or free standing locations. Sales are composed of 49% footwear, 29% apparel and 22% equipment. Hibbett Sports mainly sell Nike products, which represent 57.5% of purchases, Under Armour, 15.9% of purchases, Reebok, Adidas, The North Face, Easton and Yeti.



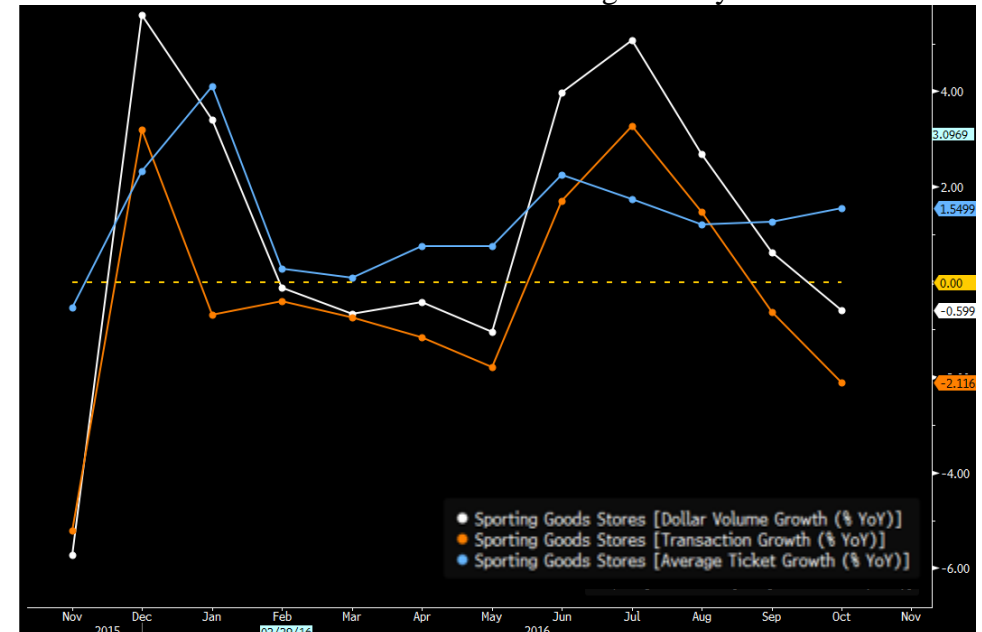
Thesis

- Undervalued sector due to current consolidation
- Superior margins creation
- Superior value creation
- Sustainable growth of comparable store sales
- Drastic control or decrease of COGS and SG&A per store
- Only company with zero debt in the sector
- Overall, best in class investment in the industry

Industry Environment

The sporting goods chain is a niche market with few competitors in the country. With the bankruptcy of Sport Chalet on April 2016 and the one from Sports Authority in May 2016, the industry entered a consolidation phase, and got smaller. Conversely to what certain analysts think, the consolidation phase is far from being over. On October 31, Performance Sports, the famous manufacturer of Bauer hockey gear and Easton baseball equipment, filed petitions for bankruptcy after suffering of the decreasing demand for months. In addition, last data reports showed that same-store sales and transaction growth of sporting goods industry have decreased since the beginning of the year, except for a short expansion period that followed the bankruptcy filings between May and July. However, it is a reasonable assumption to see the end of the consolidation period before 2018. With the overall economy forecasted to improve next year, consumer spending should increase, and the sporting goods industry should see the profit of this trend. Therefore, it is important that investors position

themselves within the industry beforehand. To do so, I recommend to invest in the best in class firm in this shrinking industry.



I defined the sporting goods retailer industry by carefully picking the competitors that I used for my analysis. I chose to work with a mix of generalists and outdoor focused companies, which include Big 5 Sporting Goods, Tractor Supply Company, Dick's Sporting Goods, Sportman's Warehouse and Cabela's.

Superior Margins

As my analysis focuses at finding the best in class investment in an industry that have been suffering from the latest economic development, it is determinant to take a look at some profitability metrics. The average margin for the industry is at 10.09% for earnings before interest, tax, depreciation and amortization in the last twelve months period. Hibbett Sports' EBITDA margin is higher than the average at 13.29%, also the highest among its peers. This trend can also be observed when analysis is

pushed further away than the last twelve months. The 3 year EBITDA margin average is the greatest among the industry group, and historically, EBITDA margin is at 12.9% for Hibbett versus 8.9% for its competitors. Hibbett's operating income margin, which is at 11.43%, also beats industry average, which is at 7.86%. It is also the highest margin among the industry, and it confirms that Hibbett Sports has the most profitable operations even after depreciation and amortization. This superior margin creation is driven by strong initiatives from management, mainly systems improvement and promotional management. According to Scott Bowman, the Chief Financial and Accounting Officer, product margin increased by 23 basis points while gross profit increased by 27 basis points in the last quarter. Net profit margin is also above industry average at 7.20%.

Name	EBITDA Margin	Operating Income Margin	Net Profit Margin	EBITDA Mgn 3Yr Avg
Average	10.09%	7.86%	4.68%	10.85%
100) HIBBETT SPORTS INC	13.29%	11.43%	7.20%	14.38%
101) SPORTSMAN'S WAREHOUS...	9.66%	8.00%	3.92%	9.91%
102) BIG 5 SPORTING GOODS ...	4.10%	2.46%	1.43%	5.58%
103) TRACTOR SUPPLY COMPANY	12.43%	10.34%	6.53%	12.22%
104) DICK'S SPORTING GOODS...	9.72%	7.07%	4.38%	10.75%
105) CABELA'S INC	11.37%	7.86%	4.64%	12.24%

This ability to create greater margins than its competitors, despite the contraction in which the sector has been in since the beginning of the year is decisive.

Unlevered Firm: The exception which proves the rule

First, it is important to notice that Hibbett has the lowest debt to equity ratio of the industry at 1.07% versus 8.62% for Dick's Sporting Goods, which is at the second place in the ranking.

Ticker	Debt/Equity LF	Curr Adj Mkt Cap
	527.47%	3.46B
HIBB US	1.07%	834.42M
SPWH US	2814.70%	382.74M
BGFV US	13.34%	384.26M
TSCO US	21.94%	8.59B
DKS US	8.62%	6.40B
CAB US	305.14%	4.18B

As of July 2016, Hibbett Sports only has \$3.42 million in short and long term debt. This debt is composed of \$0.52 million in short term and \$2.9 million in long term capital lease obligations. Hibbett leases all of its stores and certain equipment. A low level of financial leverage is also a determinant factor when it comes to industries that are experiencing a slowdown. Hibbett Sports would also be able to profit more easily and more rapidly if the current trend reverses in the near future. Contrary to its competitors, the firm could easily finance bids for bankrupt competitors, acquisitions or growth thanks to its \$80 million line of credit and extend its usage of credit with long term debt if necessary.

Best in Class Value Creation

	WACC		ROIC		
	History	LFY	History	LFY	
HIBB	14.1%	15.4%	HIBB	27.8%	21.4%
Competitors	28.0%	9.0%	Competitors	12.4%	9.4%

Hibbett's weighted average cost of capital is lower by 13.9% in the last fiscal year, but greater by 6.4% historically compared to its competitors. Compared to the competitors again, its return on invested capital is superior by 15.4% historically and by 12% in the last fiscal year. These numbers demonstrate that Hibbett has a business model that is more efficient at turning capital into profits and at lower cost than its competitors. Indeed, the company focuses its opening of new stores in small isolated communities to achieve the perfect mix of products that suit the best the local preferences.

ROIC /WACC		
	History	LFY
HIBB	1.87	1.39
Competitors	0.45	1.05

Without any surprise, Hibbett is in pole position for value creation both historically and in the last fiscal year when compared to its peers. It seems that management found the perfect company strategy for the sporting goods retailing industry while being more efficient at deploying marketing efforts. Indeed, selling and administrative expenses to revenue ratio is almost constant, around 21-22%, historically and in the last fiscal year and lower than competitors, which is at 25%.

SGA/Revenue		
	History	LFY
HIBB	21.2%	21.9%
Competitors	25.1%	25.3%

Ticker	↑ SG&A Expn as % Tot Sl
HIBB US	21.60
TSCO US	21.99
SPWH US	24.55
DKS US	22.08
CAB US	34.50
BGFV US	28.71

Multiples analysis

If we look at multiples, Hibbett Sports is trading at a current cheap price compared to its peers. Enterprise value to EBITDA, enterprise value to EBIT and price to diluted earnings per share are actually the lowest of the industry while enterprise value to total revenues is below the mean.

Company Name	TEV/Total Revenues	TEV/EBITDA	TEV/EBIT	P/Diluted EPS	P/TangBV
Cabela's Incorporated (NYSE:CAB)	2.1x	19.0x	27.7x	25.1x	2.1x
Dick's Sporting Goods Inc. (NYSE:DKS)	0.9x	9.0x	12.4x	20.2x	4.3x
Tractor Supply Company (NasdaqGS:TSCO)	1.4x	11.0x	13.2x	20.9x	6.0x
Big 5 Sporting Goods Corp. (NasdaqGS:BGFV)	0.4x	9.6x	16.4x	29.1x	2.0x
Sportsman's Warehouse Holdings, Inc. (NasdaqGS:SPWH)	0.8x	8.2x	9.9x	13.5x	96.4x
Hibbett Sports, Inc. (NasdaqGS:HIBB)	0.9x	6.4x	7.4x	13.0x	2.7x
High	2.1x	19.0x	27.7x	29.1x	96.4x
Low	0.4x	8.2x	9.9x	13.5x	2.0x
Mean	1.1x	11.4x	15.9x	21.8x	22.2x
Median	0.9x	9.6x	13.2x	20.9x	4.3x

The same kind of observations can be made when we look at forward multiples. The next twelve months EBITDA, price to earnings and total revenue forecasts show that Hibbett Sports is below average.

Company Name	TEV/Forward Total Revenue	TEV/Forward EBITDA	Forward P/E
Cabela's Incorporated (NYSE:CAB)	2.05x	17.27x	20.41x
Dick's Sporting Goods Inc. (NYSE:DKS)	0.80x	7.99x	17.23x
Tractor Supply Company (NasdaqGS:TSCO)	1.25x	10.13x	18.96x
Big 5 Sporting Goods Corp. (NasdaqGS:BGFV)	0.40x	7.27x	18.89x
Sportsman's Warehouse Holdings, Inc. (NasdaqGS:SPWH)	0.73x	7.74x	11.97x
Hibbett Sports, Inc. (NasdaqGS:HIBB)	0.83x	6.35x	12.93x
High	2.05x	17.27x	20.41x
Low	0.40x	7.27x	11.97x
Mean	1.05x	10.08x	17.49x
Median	0.80x	7.99x	18.89x

The stock is also trading today below its 2 and 5 year historical average on every single metric. According to peers and historical comparison, investors who are willing to enter the position are going to do so at a discount.

Current vs 2Yr Average Historical Multiple						2Yr Historical Multiple Range			Implied @ Hist Avg	
Metric	Current	Hist Avg	Diff	# SD	3M Trend	Low	Range	High	Hist Avg	Price (USD)
Current Price										39.75
● BF P/E	12.7x	13.1x	-3%	-0.2		9.3x		17.1x	13.1x	41.01
● BF EV/EBITDA	6.3x	6.5x	-3%	-0.2		4.3x		8.9x	6.5x	40.93
● BF EV/EBIT	7.7x	7.6x	0%	0.0		5.0x		10.3x	7.6x	39.65
● BF EV/Rev	0.8x	0.9x	-9%	-0.4		0.6x		1.3x	0.9x	43.49
● LF P/BV	2.7x	3.0x	-9%	-0.4		2.1x		4.2x	3.0x	43.56

Current vs 5Yr Average Historical Multiple						5Yr Historical Multiple Range			Implied @ Hist Avg	
Metric	Current	Hist Avg	Diff	# SD	3M Trend	Low	Range	High	Hist Avg	Price (USD)
Current Price										39.75
● BF P/E	12.7x	16.5x	-23%	-1.1		9.3x		23.3x	16.5x	51.45
● BF EV/EBITDA	6.3x	8.5x	-26%	-1.1		4.3x		12.6x	8.5x	52.89
● BF EV/EBIT	7.7x	9.7x	-21%	-1.0		5.0x		14.2x	9.7x	50.04
● BF EV/Rev	0.8x	1.3x	-36%	-1.3		0.6x		1.9x	1.3x	60.65
● LF P/BV	2.7x	4.6x	-41%	-1.2		2.1x		7.9x	4.6x	67.09

Retailer metrics: Comp sales growth, COGS, SG&A

New stores sales growth historic average is at 5.04% for Hibbett Sports while comparable store sales growth is at 8.01%. More recently, the comparable store sales has been decreasing, and even entered negative territory at -0.40% in 2016. However, as alarming as these numbers seem

to be, it is important to bring some perspective to them. Because of the consolidation in the industry, all companies had negative comparable store sales growth in 2016. Actually, Hibbett is the company that suffered the less after Dick's Sporting Goods, which had a negative growth of 0.2% last year, only two basis points away from Hibbett Sports. For comparison, Cabela's comp sales growth was down by 3.4%.

	2016	2017	2018	2019	2020
New Stores	33,700,000	27,255,590	28,886,134	30,479,981	33,599,271
Comparable Stores	(3,654,000)	12,165,990	21,811,979	20,147,784	26,012,339
Total Sales	943,100,000	982,521,580	1,033,219,694	1,083,847,459	1,143,459,069
Total Cost of Good Sold	610,389,000				
Total SG&A	203,673,000				
Change in total sales	29,232,000	39,421,580	50,698,114	50,627,765	59,611,610
Sales/New Store	601,786	619,445	601,794	622,040	671,985
Sales/Comp store	(3,698)	11,653	20,048	17,736	21,951
Total sales per store	903,352	903,053	909,524	914,639	925,878
New sales growth %	3.60%	2.89%	2.94%	2.95%	3.10%
Comparable sales growth %	-0.40%	1.29%	2.22%	1.95%	2%
Total sales growth %	3.20%	4.18%	5.16%	4.90%	5.50%
New Stores	56	44	48	49	50
Comparable stores	988	1044	1088	1136	1185
Total stores	1044	1088	1136	1185	1235

This trend is also expected to reverse in 2017, and analysts forecast a comp sales growth around 1.30%. According to analysts forecasts, we can expect comp sales per store to be below historic average during the recovery year. It is important to note that these forecasts have not been adjusted since the result of the presidential election. The new political environment could be a predominant driver in transaction growth, and hence in sales growth thanks to potential new tax laws. Another important factor to take into account is the fact that the company achieved to reduce the cost of good sold per store by 1.54% between 2015 and 2016. A trend that we can assume to continue next year since management has shifted its focus from growth to cost cutting initiatives to adapt to a depressed environment.

Short Interest ratio

As it is observable from the chart below, the short interest on Hibbett Sports stock is quite high at 17.83. However, historically, the ratio has been above 10 days, which indicates a strong historical presence of short sellers on the stock. In addition, the ratio has begun to decrease, which indicates a good time to enter the position.

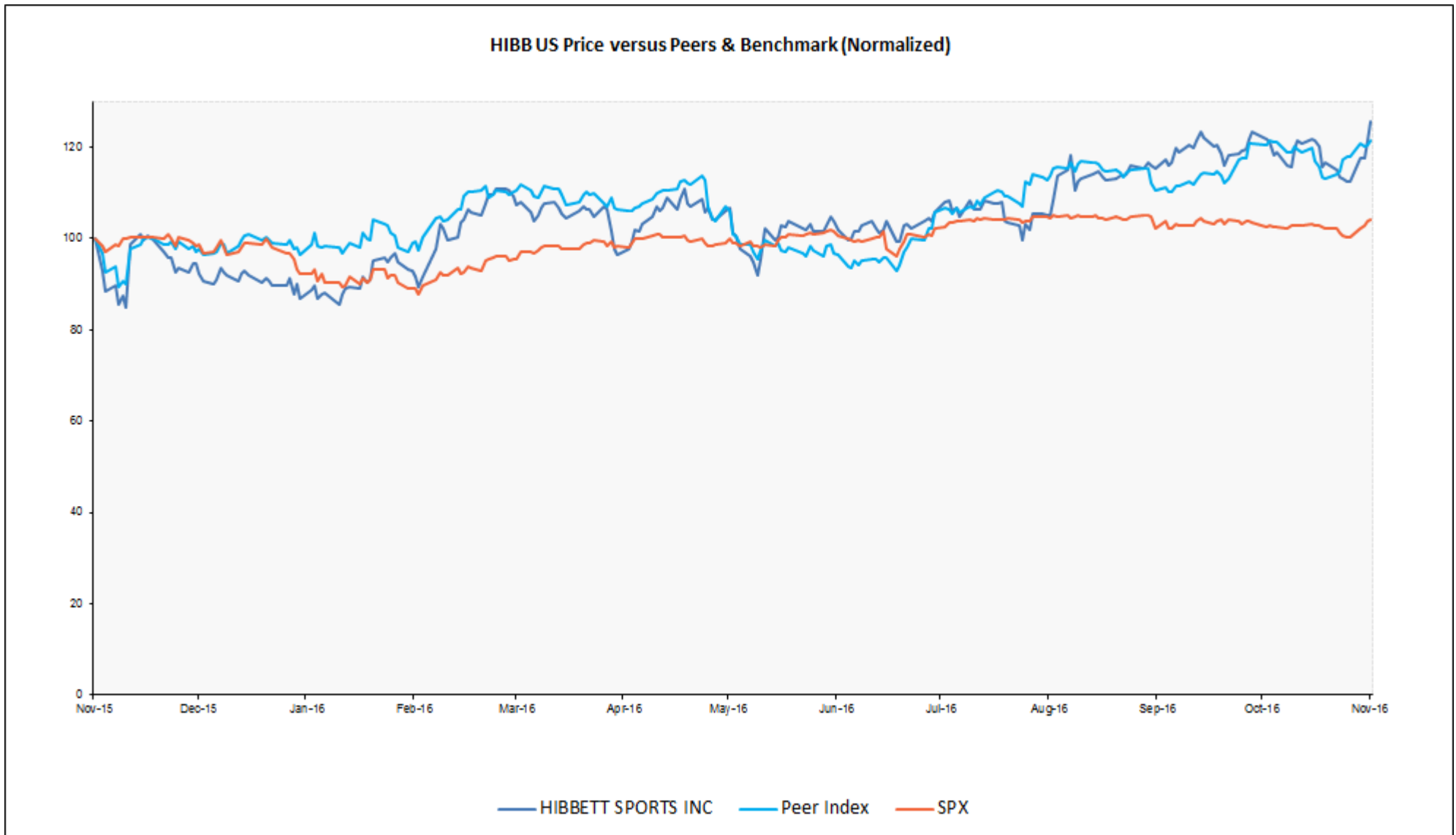


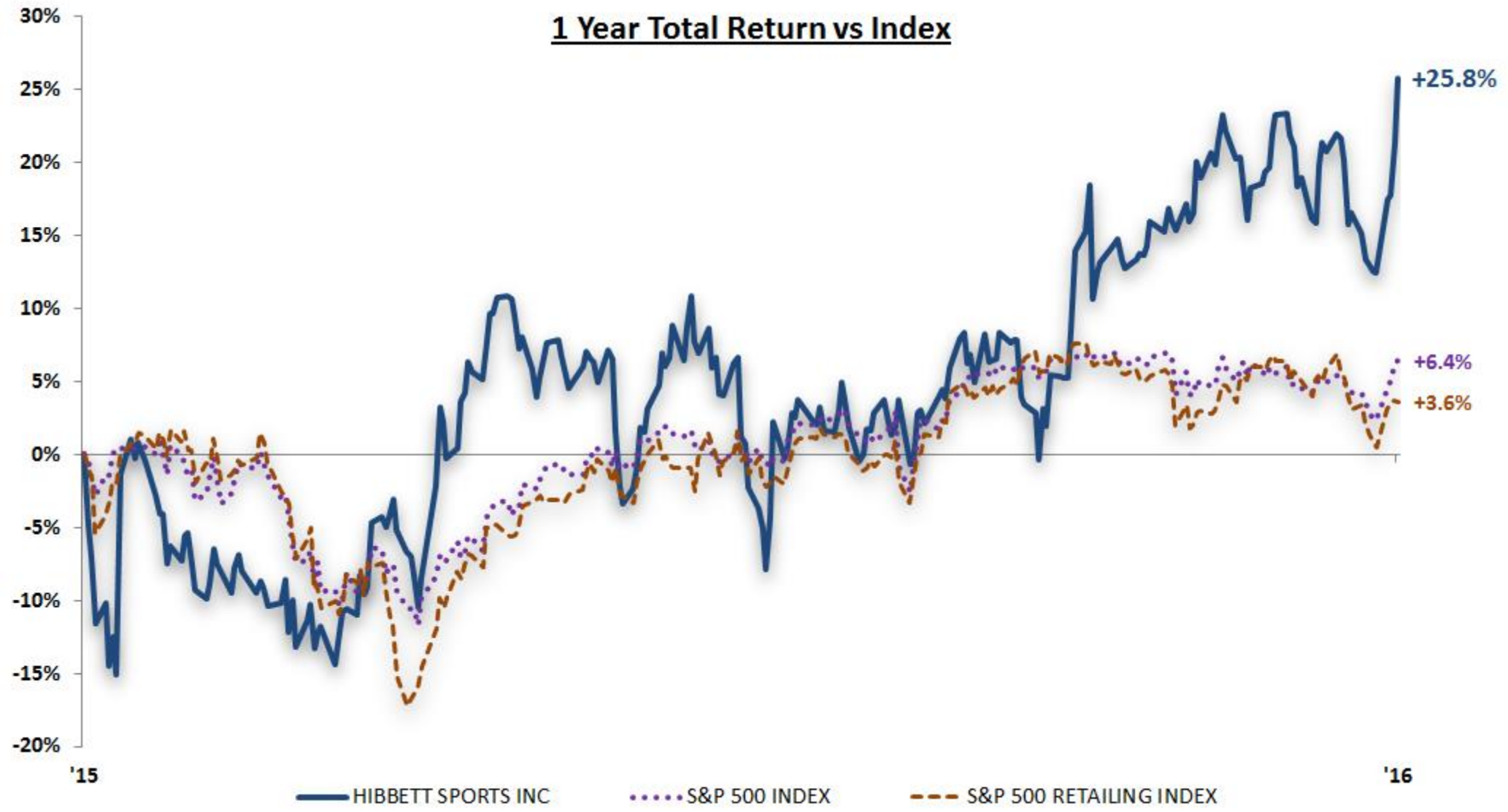
Conclusion

Risks:

- Consolidation in the sporting goods retailing sector longer than expected
- Below expectation openings of new store
- Failure to manage operating costs
- Economic recession
- Failure to implement internet platform strategy

Superior margins and value creation, good comp store sales growth, no debt, good management of COGS and SG&A and both multiple and DCF valuation show that Hibbett Sports (HIBB) is the best in class investment. We recommend an entry point at current market price, \$42.5, mainly because Hibbett Sports beat EPS expectation seven times out of the last eight quarters. Our target price is at \$49.0 for a target return of 15.0%. If earnings were to disappoint, we recommend an entry point at \$39.





Hibbett Sports, Inc. (HIBB)
CENTER FOR GLOBAL FINANCIAL STUDIES
BULLISH

Analysis by:
11/10/2016

Current Price:
\$42.40

Divident Yield:
0.1%

Intrinsic Value:
\$44.09

Target Price:
\$49.33

Target 1 year Return: 16.48%

Probability of Price Increase: 89.8%

1-year Price Volume Graph

Description
Hibbett Sports, Inc., together with its subsidiaries, operates athletic specialty stores in small and mid-sized markets primarily in the South, Southwest, Mid-Atlantic, and the Midwest regions of the United States.

General Information

Sector	Consumer Discretionary
Industry	Specialty Retail
Last Guidance	November 3, 2015
Next earnings date	November 18, 2016
Estimated Country Risk Premium	6.25%
Effective Tax rate	40%
Effective Operating Tax rate	40%

Market Data

Market Capitalization	\$900.39
Daily volume (mil)	0.37
Shares outstanding (mil)	21.99
Diluted shares outstanding (mil)	23.03
% shares held by institutions	74%
% shares held by investments Managers	120%
% shares held by hedge funds	12%
% shares held by insiders	1.02%
Short interest	21.35%
Days to cover short interest	13.04
52 week high	\$41.97
52-week low	\$27.58
Levered Beta	1.08
Volatility	25.22%

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Peers

- Big 5 Sporting Goods Corp.
- Sportsman's Warehouse Holdings, Inc.
- Dick's Sporting Goods Inc.
- Cabela's Incorporated
- Tractor Supply Company

Past Earning Surprises

Quarter ending	Revenue	EBITDA
8/1/2015	-4.98%	-19.80%
10/31/2015	-4.08%	0.10%
1/30/2016	-2.38%	-0.53%
4/30/2016	-2.56%	-2.20%
7/30/2016	-2.71%	-5.40%
Mean	-3.34%	-5.57%
Standard error	0.5%	3.7%

Management

Position	Total compensations growth	Total return to shareholders
Rosenthal, Jeffrey Chief Executive Officer, Pre	4.05% per annum over 6y	7.36% per annum over 6y
Bowman, Scott Chief Financial Officer and	17.87% per annum over 4y	-0.27% per annum over 4y
Pryor, Cathy Senior Vice President of Ope	1.98% per annum over 6y	7.36% per annum over 6y
Binklin, Jared Chief Merchant and Senior Vi	25.07% per annum over 2y	-13.84% per annum over 2y
Mayfield, Terry Chief Information Officer an	N/M	N/M
Benck, David Vice President and General C	N/M	N/M

Profitability

	HIBB (LTM)	HIBB (5 years historical average)	Industry (LTM)
ROIC	12.3%	15.79%	20.49%
NOPAT Margin	9%	12.68%	7.0%
Revenue/Invested Capital	1.43	1.24	2.93
ROE	12.2%	16.36%	24.53%
Adjusted net margin	6%	10.92%	6.4%
Revenue/Adjusted Book Value	1.90	1.50	3.86

Invested Funds

	HIBB (LTM)	HIBB (5 years historical average)	Industry (LTM)
Total Cash/Total Capital	6.5%	9.6%	19%
Estimated Operating Cash/Total Capital	6.5%	8.4%	N/A
Non-cash working Capital/Total Capital	26.4%	26.0%	19%
Invested Capital/Total Capital	100.0%	98.8%	82%

Capital Structure

	HIBB (LTM)	HIBB (5 years historical average)	Industry (LTM)
Total Debt/ Common Equity (LTM)	0.23	0.14	0.25
Cost of Existing Debt	22.69%	22.51%	7.32%
Estimated Cost of new Borrowing	22.92%	22.92%	7.32%
CGFS Risk Rating	F	F	C
Unlevered Beta (LTM)	0.95	1.11	0.91
WACC	11.35%	11.57%	9.46%

Target Price Distribution--P(price↑)=89.8%

Sensitivity Attribution Analysis

Revenue	43.7%
Operating Expenses	46.7%
Dividends	0.2%
NWC	0.5%
CAPEX	14.0%
Operating Cash	0.9%

Porter's 5 forces (scores are out of 100)

Period	Revenue growth	Valuation	NOPAT margin	ROIC/WACC
Base Year	3.9%		8.8%	1.10
7/30/2017	3.6%		8.3%	1.03
7/30/2018	4.0%		9.8%	1.47
7/30/2019	4.0%		9.5%	1.12
7/30/2020	3.9%		10.0%	1.18
7/30/2021	3.9%		10.2%	1.21
7/30/2022	3.9%		10.3%	1.24
7/30/2023	3.9%		10.4%	1.27
7/30/2024	4.0%		10.6%	1.30
7/30/2025	4.0%		10.7%	1.33
7/30/2026	4.0%		10.8%	1.36
Continuing Period	4.1%		11.0%	1.39

Period	Invested Capital	Net Claims	Price per share
Base Year	\$490.84	\$180.54	\$43.49
7/30/2017	\$525.03	\$159.05	\$48.35
7/30/2018	\$623.80	\$280.97	\$53.58
7/30/2019	\$653.28	\$225.34	\$59.57
7/30/2020	\$675.45	\$148.73	\$65.75
7/30/2021	\$706.48	\$68.75	\$72.10
7/30/2022	\$744.91	-\$14.45	\$78.65
7/30/2023	\$970.45	-\$99.06	\$85.29
7/30/2024	\$1,012.37	-\$186.40	\$92.09
7/30/2025	\$1,040.53	-\$276.50	\$99.02
7/30/2026	\$1,069.09	-\$369.39	\$106.07
Continuing Period			